CHAPTER 1. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a detailed overview of Thailand's commercial environment using economic, political, and market analysis. CCGs were established by the Trade Promotion Coordinating Committee to consolidate U.S. Government reporting documents prepared for the American business community. Country Commercial Guides are prepared annually at select U.S. Embassies around the world through the combined efforts of several U.S. Government agencies.

The Thai economy in 2000 showed signs of continued recovery from the dramatic downturn of 1997-98, registering 4.3 percent growth that was led largely by continued expansion in exports of almost 20 percent. Since the end of 2000, however, Thailand's economic outlook has become considerably more uncertain due to continued weak domestic demand and investment as well as the slowdown in the global economy, particularly in the United States and Japan, Thailand's two largest export markets. As a result, analysts have adjusted the country's GDP forecast downward to 1.0-2.0 percent for 2001, challenging the government to put the economy back on the path to recovery.

Popular dissatisfaction with the pace of Thailand's recovery played a major role in the January 2001 election victory of Thaksin Shinawatra's Thai Rak Thai Party, which unseated the government led by former Democratic Prime Minister Chuan Leekpai. While the latter made significant strides in stabilizing the economy after 1997 and laid down a framework for financial and economic restructuring, Thai voters, comparing a sluggish Thai recovery with what they perceived as faster rebounds elsewhere in Asia, opted for Thaksin's promises to reinvigorate the economy and redistribute the benefits of growth more evenly. In sharp contrast to the Democrats' market-based approach, which called for a limited role for government, the Thaksin government has moved relatively quickly to implement ambitious spending and stimulus programs. Among these are establishment of a Thai Asset Management Corporation, an affordable national health care scheme, a three-year debt moratorium for some farmers, and a micro-credit program designed to create jobs and promote development of new products in rural areas.

Thaksin and his economic advisors are confident their interventions will lead the Thai economy back to growth, but this is far from assured since the external environment will play a major role. Analysts are divided about the likely effectiveness of such interventions as the national AMC, which the government expects will spur banks to lend more. While the national AMC may remove from banks the capital constraints arising from non-performing loans and even prompt increased lending, these are not sufficient conditions to ensure the health of the financial sector. The Thaksin government could do much to improve prospects in this sector by continuing several reforms initiated but left incomplete by the previous government, such as speeding up the judicial process of bankruptcy and foreclosure, and passage of a new financial institutions law that could provide for additional improvements in supervision and in corporate governance.

With its solid legislative position, the Thaksin government has the opportunity to pursue other significant restructuring of the economy. For example, privatizing

Thailand's state-owned enterprises is one area where results do not seem commensurate with the work already done. Bold action here could yield major benefits to the efficiency of the economy as a whole, particularly in the energy and telecommunications sectors, as well as relieving the public sector of a large capital investment burden and opening additional opportunities for both Thai and foreign investors.

Regarding foreign trade and investment, there were some indications during the campaign and within the first couple of months after the election that Thaksin and his advisors espoused more inward-looking economic policies aimed at self-reliance. Government agencies and state enterprises were even urged to “Buy Thai” in order to stem the rising level of imports. Since late April, the government has sought to stress that Thailand would remain open to trade and investment and would continue liberalization trends. Coming from a background as one of Thailand's most successful businessmen, Thaksin is fully cognizant of Thailand's need for foreign investment, and there is no reason to suspect that Thailand's traditional reputation, as a "good place to invest and do business" will change under his government.

In addition to government support, Thailand's other strengths as a destination for foreign investments remain unchanged. Its location at the center of Southeast Asia made it a natural export platform, but the domestic market continues to grow and diversify as the economy moves back toward full recovery. Transportation and communications infrastructure has improved dramatically over the recent past, and additional expansion is underway. Thailand has no real industrial policy directing investment, and successive governments -- including Thaksin's -- have committed the country to an increasingly open trade and investment regime. Investing and doing business here present challenges, to be sure, but the government appreciates the need for foreign investment. Providing an appropriate and attractive regime for foreign investment is certain to remain a central tenet of Thai economic policy.

The United States is Thailand's largest two-way trade partner, having overtaken Japan since the 1997-98 Asian financial crisis. Thai exports to the U.S. increased throughout the crisis, from $10 billion in 1996 to $16.4 billion in 2000, according to U.S. Commerce Department figures. Imports from the U.S., on the other hand, fell precipitously from $9 billion in 1996 to under $6 billion in 1998 and rose to $6.6 billion in 2000. Thailand's surplus in the bilateral trade has thus risen from $1 billion in 1996 to $9.8 billion in 2000

Given the crucial role exports have played in Thailand's recovery, a deficit on the trade account in January caused significant concern. The small deficit was Thailand's first since August 1997 and was explained partially by one-time factors. However, it emphasized once again the relative weakness of the domestic economy and the consequent reliance on exports to keep the recovery on track. The deficit has already prompted the Thaksin government to pay greater public attention to export promotion activities, and it issued calls to maximize the use of local materials where possible**.** The trade balance returned to positive territory in February and March, but imports exceeded exports again in April. Government officials are confident the trade account will remain in surplus for the whole year. More effective export promotion -- coupled with favorable external developments -- will be necessary if exports are to approach last year's totals. Exports suffered year-on-year declines in three of the first four months of 2001, and April's export totals fell 7 percent from the same month last year.

Given Thailand's economic uncertainties and its location halfway around the globe from the U.S., the Thai market may often be left off the list of potential export markets for many American companies. However, U.S. firms should keep in mind that Thailand's economic evolution over the past two decades has resulted in a rather diversified economy increasingly open to foreign trade and investment. While formerly high growth rates have slowed, U.S. products and services can contribute to current Thai economic goals of building a competitive export base, particularly in sectors such as electronics, automotive products, and processed food; completing major infrastructure projects; advancing national imperatives to improve education, IT usage and healthcare; and preparing for privatization of transportation, telecommunications, and power generation. In addition, Thailand's rapid growth in the past 15 years has swelled the ranks of the country's middle class, which will resume consumption once recovery becomes fully established.

In surveying the sectors offering best prospect for U.S. exports outlined in Chapter 5, American companies are advised to evaluate the many commercial opportunities that are available in Thailand based on the forward-looking vantage point of the year 2002, rather than focusing on the current softness in Thailand's economy. Thailand's trade and economic policies are expected to remain outward-oriented and its industries look to strong trading partners such as the U.S. for high quality, technologically advance products. Thus, the U.S. is expected to remain the leading trade and investment partner, and U.S. firms the number one sources of supply. American firms are encouraged to contact Commercial Service Bangkok for advice and assistance in how best to explore opportunities in the Thai market.

Country Commercial Guides are available for U.S. exporters from the national trade data bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can also be accessed via the World Wide Web at http://www.usatrade.gov, http://www.state.gov, and http://www.mac.doc.gov. They can also be ordered in hard copy or on diskette from the national technical information service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRAD(E) or by fax at (202) 482-4473.